

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO. 3697-05  
BILL NO. HCS for HB 1415  
SUBJECT: Taxation and Revenue; Utilities  
TYPE: Original  
DATE: March 10, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
All State Funds*	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)
General Revenue	(\$327,687)	(\$229,067)	(\$57,117)
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>(\$327,687) to (Unknown)</b>	<b>(\$229,067) to (Unknown)</b>	<b>(\$57,117) to (Unknown)</b>

\*Expected to be minimal since the replacement taxes are designed to be revenue neutral

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>Local Government*</b>	<b>Unknown to (Unknown)</b>	<b>Unknown to (Unknown)</b>	<b>Unknown to (Unknown)</b>

\*Expected to be minimal since the replacement taxes are designed to be revenue neutral

Numbers within parentheses: ( ) indicate costs or losses

This fiscal note contains 6 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume the proposed legislation would result in the need for a new system to administer this tax. The DOR assumes this would create a new tax on kilowatt hours to replace the old local sales tax on electrical energy. There would be start up costs in the DOR and several new systems required. It is assumed this system would require 6,747 overtime hours, at \$25 per hour, to create, test and implement, for a cost of \$168,675. In addition, there would be State Data Center costs of \$29,834 to test and implement the system. DOR also assumes they would need five additional Tax Processing Technicians (5 FTE, each at \$20,172 per year). Three Tax Processing Technicians would be needed to start this system that replaces the local sales tax and two Tax Processing Technicians would be needed to help administer the property tax replacement tax.

**Oversight** assumes that: 1) the Tax Processing Technicians needed to start the kilowatt hour tax system would not be needed after the first year because personnel handling the sales tax on electrical energy could administer the new tax; 2) the one-year employees would use existing equipment; and 3) the two permanent employees would be domiciled in existing space.

Officials from the **Department of Natural Resources (DNR)** assume that during the time period addressed by this fiscal note that the DNR would handle any increased needs with existing FTEs. DNR further assumes that any increase in air emissions, wastewater emissions and additional ash generated for disposal will continue to require appropriate permits that must consider cumulative impacts. Increases in air emissions will require additional controls for water contaminants such as SO<sub>2</sub>, NO<sub>x</sub> and mercury. Use of alternate fuels, for example landfill gases, tire-derived fuel or any other solid waste should continue to be competitively available. Siting new facilities and additional transmission lines and decommissioning of retiring facilities will require appropriate permits.

Officials from the **Office of the State Auditor (SAU)** assume the costs of this proposal would increase dramatically from the previous version due to the requirement that the SAU would “audit the data submitted by each county or other political subdivision, and certify no later than December first. . . .” The estimated cost is a MINIMUM fiscal impact, assuming a ONE TIME certification and audit, and could increase significantly, depending upon the number of counties and other political subdivisions submitting data to the SAU. In addition, it may not be possible to audit all counties and other political subdivisions within the period October 1 to December 1, again depending upon the number of counties and other political subdivisions submitting data to the SAU. This time limit imposed upon the audit requirement could also significantly increase

ASSUMPTION (continued)

the costs of this proposal. Accordingly, the SAU's estimate is a range from the annual costs of approximately \$173,000 to unknown in the second year and unknown in the other two years.

Officials from the **Department of Economic Development - Public Service Commission (PSC)**, **Department of Economic Development - Office of Public Counsel (OPC)**, **State Tax Commission (TAX)**, **Department of Social Services (DOS)** and the **Department of Elementary and Secondary Education (DES)** assume this proposal would not fiscally impact their agencies.

In a similar previous proposal, officials from the **City of Springfield** assumed the proposed legislation could result in a loss of revenue. The proposal does not include a provision for replacement taxes for payments in lieu of taxes for municipalities with municipally owned utilities, such as City Utilities of Springfield. Unless the bill is changed, the City of Springfield could lose as much as \$485,000 per year in the initial year of retail customer choice, with possible increases in the amount each year thereafter.

In a similar previous proposal, the **Office of the Secretary of State (SOS)** assumed the proposal would have no fiscal impact on its agency.

Officials from the **City of St. Louis (STL)** and the **Kansas City Manager (KCM)** did not respond to our fiscal impact request.

**Oversight** assumes there could be a fiscal impact as a result of this proposal. It is assumed the intent is to insure that revenues are not lost as a result of out of state suppliers of energy, and that revenues collected will closely parallel tax revenue that is currently collected. However, it is likely it will not be an exact match and some fiscal impact could result.

Based on information received from various officials including the DOR and the State Tax Commission, **Oversight** has estimated the amount of replacement tax necessary to replace the current taxes that are collected. The estimate for the state sales tax would be \$74 million and the estimate for the local sales tax would be \$40 million; the estimate for the property tax would be \$100 million; and the estimate for gross receipts tax on electricity and natural gas would be approximately \$240 million, for a total replacement tax of \$454 million.

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<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**GENERAL REVENUE FUND**

Costs - Department of Revenue (DOR)

Personal Service (5, 2, 2 FTE)	(\$ 84,050)	(\$ 41,352)	(\$ 42,386)
Fringe Benefits	(25,845)	(12,716)	(13,034)
Expense and Equipment	<u>(217,792)</u>	<u>(1,648)</u>	<u>(1,697)</u>
Total <u>Costs</u> - DOR	(\$327,687)	(\$55,716)	(\$57,117)

Costs - Office of the State Auditor (SAU)

Personal Service (3 FTE)	(Unknown)	(\$105,567)	(Unknown)
Fringe Benefits	(Unknown)	(32,462)	(Unknown)
Expense and Equipment	<u>(Unknown)</u>	<u>(35,322)</u>	<u>(Unknown)</u>
Total <u>Costs</u> - SAU	(Unknown)	(\$173,351)	(Unknown)

**ESTIMATED NET EFFECT TO  
GENERAL REVENUE FUND\***

<u>(\$327,687)</u>	<u>(\$229,067)</u>	<u>(\$57,117)</u>
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**\*Does not include possible costs to SAU in FY 01 and FY 03.**

**ALL STATE FUNDS**

<u>Effects</u> of Replacement Taxes	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)
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**ESTIMATED NET EFFECT ON  
ALL STATE FUNDS\***

<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>to</u>	<u>to</u>	<u>to</u>
<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

\*Expected to be minimal since the purpose of the replacement taxes is to be revenue neutral.

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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**POLITICAL SUBDIVISIONS**

<u>Effects of Replacement Taxes</u>	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)
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**ESTIMATED NET EFFECT ON  
 POLITICAL SUBDIVISIONS\***

<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>to</u>	<u>to</u>	<u>to</u>
<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

\*Expected to be minimal since the purpose of the replacement taxes is to be revenue neutral.

FISCAL IMPACT - Small Business

This proposal could have a fiscal impact on small businesses to the extent they do not currently pay these taxes.

DESCRIPTION

This act is implementing legislation for HJR 53 which authorizes the General Assembly to enact utility replacement taxes. Upon approval of the constitutional amendment, the act would repeal existing gross receipts taxes and business license taxes on electricity and natural gas, franchise fee agreements, tax on utility distributable property and certain payments-in-lieu-of-taxes (PILOTs). Revenue lost by political subdivisions due to the repeal of these taxes are replaced by an electricity or natural gas usage tax or charge.

The act also contains backup provisions pertaining to gross receipts taxes and sales taxes on electricity and natural gas service which are similar to HB 1325 from 2000 and backup provisions revising taxes on utility distributable property. Distributable property of electric companies in the tax year beginning on the effective date of this proposal would continue to be assessed and the values distributed by the same method used in that year. However, assessments beginning after the effective date of this proposal would be revised annually based upon market value. The State Tax Commission would allocate such market value to each county based on the ratio which the line miles located in that county bear to the total line miles in that state.

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DESCRIPTION (continued)

The proposal would become effective January first next following the date notice is received by the revisor of statutes from the Public Service Commission, or January 1, 2001, whichever later occurs, if by that date an amendment to article X of the Missouri Constitution which abolishes local taxes on electricity and natural gas upon implementation of a replacement tax has been adopted, and not otherwise.

This legislation is not federally mandated, would not duplicate any other program and would require additional capital improvements or rental space.

This proposal could affect Total State Revenues.

SOURCES OF INFORMATION

Department of Revenue  
Department of Natural Resources  
Office of the State Auditor  
Department of Economic Development  
Public Service Commission  
Office of Public Counsel  
State Tax Commission  
Department of Social Services  
Department of Elementary and Secondary Education  
City of Springfield  
Office of the Secretary of State

NOT RESPONDING: City of St. Louis, Kansas City Manager



Jeanne Jarrett, CPA  
Director  
March 10, 2000